

NEWS RELEASE



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SOUTHERN DISTRICT OF CALIFORNIA
San Diego, California***

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For Immediate Release

NEWS RELEASE SUMMARY - June 7, 2004

United States Attorney Carol C. Lam today announced that the Honorable Thomas J. Whelan sentenced two family members in federal district court in San Diego for their role in fraudulently substituting cheaper and inferior products on contracts with the United States Department of Defense. Gerald Dennis Dillon Sr. was sentenced to 15 months in custody, followed by three years of supervised release, and ordered to pay over \$165,000 in restitution to the United States Department of Defense and a \$15,000 fine. Codefendant Rosemarie Carla Dillon, wife of Gerald Dillon Sr., was sentenced to three years of supervised release and ordered to pay over \$29,000 in restitution and a \$5,000 fine.

On December 19, 2003, Gerald Dillon Sr. and his son, Jeffrey Dillon, pled guilty to Conspiring to Defraud the United States in connection with the family's scheme to fraudulently substitute products on over a dozen contracts with the United States military. Rosemarie Dillon pled guilty to Making False Statements

to representatives of the Department of Defense concerning the source and quality of the products actually submitted on four government contracts. Gerald Dillon Sr. and Jeffrey Dillon also pled guilty to Filing False Tax Returns by failing to declare as income hundreds of thousands of dollars they derived from their business.

From 1995 through 2000, the defendants operated Supply Depot Inc. ("SDI"), a commodity supply business located at 2830 Via Orange Way, Spring Valley, California. During that time SDI supplied various commodities needed by the United States Department of Defense, including wire rope and casters. As detailed in the Indictment and the defendants' Plea Agreements, the defendants substituted cheaper and oftentimes inferior wire rope and casters on thirteen contracts with the Department of Defense in 1999 and 2000. The wire rope at issue was used for a variety of purposes, including as aircraft cable to connect wing flaps and rudders to cockpit flight control systems of certain aircraft, including the B-1 Bomber, F-4 Phantom, B-52 Stratofortress, and F-14 Tomcat. Casters fraudulently substituted by the defendants were approved for use on scaffolding that serviced the B-1 Bomber and for use in transporting bombs and fuel tanks to and from military aircraft. The defendants falsely represented to Department of Defense officials that the products provided were in fact the ones required by the military and fraudulently invoiced the Government full price on these contracts. As a result of the defendants' misconduct, the military had to remove the substitute products from inventory and ground aircraft in order to replace the sub-standard parts.

According to the Indictment and Gerald Dennis Dillon Sr.'s Plea Agreement, during 1999 and 2000 this defendant used funds from SDI's operating account to pay his personal expenses and transferred approximately \$1 million from SDI's operating account to codefendant Jeffrey Dillon's brokerage accounts. These payments and transfers were made so that Gerald Dennis Dillon Sr. could gain the benefit of these funds without disclosing them as his assets. Gerald Dillon Sr. and Jeffrey Dillon failed to include these sums as income on either of their individual income tax returns and falsely certified their returns to be true and correct. As part of his Plea Agreement, Gerald Dillon Sr. also accepted responsibility for causing over \$300,000 to be omitted from income on the tax return of his other son, Gerald Dillon Jr.

United States Attorney Carol C. Lam applauded the joint efforts of the Defense Criminal Investigation Service, the Federal Bureau of Investigation, the Naval Criminal Investigative Service, the Air Force Office

of Special Investigations, the Army Criminal Investigation Division, and the Internal Revenue Service in bringing the defendants to justice.

U.S. Attorney Lam stated, “The defendants shortchanged our military to increase their personal profit. They put men and women of our arm forces in harm’s way, and now have been duly punished.”

According to Denise L. Rubin, Special Agent in Charge of IRS Criminal Investigation Division in San Diego, “The defendants willfully filed fraudulent income tax returns and omitted income totaling over \$1.4 million.” Rubin stated, “The funds received from the defense contracts were diverted into a brokerage account in order to conceal the income. The IRS Criminal Investigation Division serves the American public by aggressively investigating those who intentionally file fraudulent income tax returns as indicated in this case.”

Codefendant Jeffrey Michael Dillon, son of Gerald Dillon Sr., is scheduled to be sentenced on July 26, 2004.

DEFENDANT

Gerald Dennis Dillon Sr.

Rosemarie Carla Dillon

Jeffrey Michael Dillon

Gerald Dennis Dillon Jr.

SUMMARY OF CHARGES

Conspiracy to Defraud the United States in violation of Title 18, U.S.C. § 371
Maximum Penalty: Five years in prison and fine not to exceed \$250,000

False Statements to the United States in violation of Title 18, U.S.C. § 1001
Maximum Penalty: Five years in prison and fine not to exceed \$250,000

Filing False Tax Returns in violation of Title 26, U.S.C. § 7206(1)
Maximum Penalty: Three years in prison and fine not to exceed \$100,000

AGENCIES

Defense Criminal Investigative Service, Internal Revenue Service, Criminal Investigation Division
Federal Bureau of Investigation, Naval Criminal Investigative Service, Air Force, Office of Special
Investigations, Army Criminal Investigation Division